

DEFERRED RETIREMENT OPTION PLAN (DROP)

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FORMS

- ❏ DROP Contract and Application Form
- ❏ Request for Early Termination of DROP (ERS 10 D-E)
- ❏ Request for DROP Termination Participation Period Completed (ERS 10 D-C)
- ❏ Request for Distribution – DROP (RSA 10 D-D)
- ❏ Application for Beneficiary Payment – DROP (RSA-DROP)

DEFERRED RETIREMENT OPTION PLAN (DROP)

Introduction

The Deferred Retirement Option Plan (DROP) became effective June 1, 2002. This voluntary plan will allow members of the Employees' Retirement System (ERS) to contract with the ERS to defer receipt of their retirement allowance and continue employment for a specific period of time. At the end of DROP participation, the member may withdraw from active service and receive a retirement benefit based on his or her years of service credit at the time of enrollment in DROP plus a lump-sum payment of the amount in their DROP account.

The information in this section of the Manual is based on the Code of Alabama 1975, Title 36, Chapter 27, Article 9. This section is not intended as a substitute for the laws of Alabama governing the ERS nor will its interpretation prevail should a conflict arise between its contents and Article 9. Furthermore, the laws summarized here are subject to change by the Alabama Legislature. Do not rely solely upon the information provided in this section to make any decision regarding participation in DROP, but contact the ERS directly with any questions you may have about eligibility or how DROP works. Also consult the ERS Member Handbook.

Requirements for DROP Participation

DROP is an optional program. However, to be eligible to participate in DROP, the member must meet all of the following requirements:

1. Have at least 25 years of creditable service exclusive of sick leave (members cannot convert sick leave into creditable service to become DROP eligible)
2. Be at least 55 years of age
3. Be eligible for service retirement
4. For non-state agencies, member's employing agency must be under the provisions of law that allows for DROP participation

A member may participate in DROP only one time.

Election to Participate in DROP

The participation period for DROP is for a minimum of three years, but not more than five years. Once the member has completed the three-year minimum requirement, he or she is eligible to receive either a lump-sum payment or make a direct rollover of the entire account to a qualified plan. A DROP participant may terminate DROP anytime between three years and five years (for example, three years and eight months or four years and three months). The termination date must be the last day of a month.

A penalty will result for members who **voluntarily** terminate employment or withdraw from DROP in the first three years of DROP participation. There is no penalty for

involuntary termination, disability, involuntary transfer of his or her spouse, or death of the participant in the first three years.

Applying for Participation in DROP

A member is eligible to apply to enter DROP whenever he or she meets the requirements for participation. However, the member must have the Application for DROP into the ERS at least 30 days, but not more than 90 days, before the effective date of participation in DROP. Contact the ERS to request the DROP Contract/Application or download the form from our Web site.

Entering DROP

Maximum or Optional Retirement Allowance

At the beginning of the participation period, the member must select between the maximum monthly benefit or one of the options the same as he or she would do if retiring. **This option is an irrevocable, one-time election.** If the member does not make this selection, he or she will automatically receive the maximum. The monthly retirement allowance will be paid into the member's DROP account.

Converting Accrued Sick Leave

Accrued sick leave may **not** be converted to service credit for the purpose of establishing DROP eligibility, nor used in calculating the monthly retirement allowance upon entering DROP. At the time the member leaves service, the monthly retirement allowance may be recalculated to include accrued sick leave. However, the number of days converted cannot exceed the number of days the participant had on the date he or she entered DROP.

If a member had 100 days of sick leave upon entering DROP and accrued 20 more sick leave days during DROP, he or she may only convert 100 sick leave days to service credit. If a DROP participant has 100 sick leave days upon entering DROP and used all of his or her sick leave accrued during DROP plus another 20 days of sick leave, the DROP participant may only convert the remaining 80 days of sick leave to service credit.

Service Credit

The member's service credit will remain the same during DROP participation as when he or she entered DROP. No time spent participating in DROP will be counted as creditable service.

Purchasing Service Credit

Once a member enters DROP, service credit purchases are prohibited.

Contributions

Both the employer and the member will continue making contributions to the ERS during the DROP participation period.

Prevention of Extraordinary Benefits or Incentives

No employer whose employees are covered under the ERS can offer any incentives such as monetary payments, prepayment of health insurance, or extraordinary payments for accrued leave, solely for the purpose of enticing employees to elect to participate in DROP. This does not apply to regular payments for leave or contributions toward health insurance.

The DROP Account

The DROP account funds are generated from three sources:

1. Monthly Retirement Allowance

The monthly retirement allowance that normally would have been paid to the member as if he or she had retired will be placed in the member's DROP account. There will be no deductions for taxes, health insurance or Social Security.

2. Member Contributions

The five (regular members), six (full-time certified firefighters, correctional officers, and law enforcement officers) or ten (State Police) percent member contributions will be placed in the member's DROP account.

3. Interest

The DROP account will earn interest at the same rate as active member accounts (currently four percent).

Retiree Cost-of-Living Adjustments (COLAs)

A member participating in DROP is not eligible to receive retiree COLAs. A member is not eligible to receive a retiree COLA until he or she has withdrawn from service and has been receiving a retirement allowance for one year.

Active COLAs and Salary Increases

Participants in DROP may receive active COLAs and salary increases.

Health Insurance

A member's health insurance benefits will continue to be provided through the member's employing agency.

Annual and Sick Leave

Participants in DROP will continue to accrue sick and annual leave based on agency approval. See ***Converting Accrued Sick Leave*** for more information.

No Fees

DROP is not subject to any fees, charges or other similar expenses of any kind.

Employee Rights

Participation in DROP does not affect the rights of any state employee under the state personnel system, including, but not limited to, his or her rights to longevity pay. The election to enter DROP is between the ERS and the member. In no way should it be construed as a guarantee of continued employment for the DROP participation period, nor as a requirement that a participant terminate employment at the end of the DROP participation period. Continued employment and termination of employment are matters between the employer and employee.

Military Leave While Participating in DROP

A DROP participant may go on military leave without penalty provided he or she does not terminate employment. The period of military leave is included in the DROP participation period.

Withdrawal from DROP

Completion of Contractual Obligation

A member who completes his or her contractual obligation in DROP, i.e., participates in DROP between three to five years, may elect to receive the following contributions in either a lump-sum payment or make a direct rollover to a qualified plan:

1. The monthly retirement allowance contributions plus interest (currently four percent). These contributions are based on the retirement option elected upon entering the DROP participation period.
2. Member contributions made to the ERS during the DROP participation period plus interest (currently four percent).

The monthly retirement allowance the retiree will receive after withdrawal from service may be recalculated to include accrued sick leave. However, the number of days converted cannot exceed the number of days the participant had on the date he or she entered DROP. The member is **not** allowed to change the option for the monthly retirement allowance chosen at the beginning of the DROP participation period.

Payments will not be made until the member withdraws from service. If the member continues employment with an agency participating in the RSA, he or she will not be able to receive distribution until he or she terminates employment.

Involuntary Termination, Disability, or Involuntary Transfer of Spouse in First Three Years of DROP Participation

A member who did not fulfill his or her contractual obligation due to involuntary termination, disability, or involuntary transfer of spouse in the first three years of the DROP participation period may elect to receive the following contributions in either a lump-sum payment or make a direct rollover to a qualified plan:

1. The monthly retirement allowance contributions plus interest (currently four percent). These contributions are based on the retirement option elected upon entering the DROP participation period.
2. Member contributions made to the ERS during the DROP participation period plus interest (currently four percent).

The monthly retirement allowance the retiree will receive after withdrawal from service may be recalculated to include accrued sick leave. However, the number of days converted cannot exceed the number of days the participant had on the date he or she entered DROP. The member is **not** allowed to change the option for the monthly retirement allowance chosen at the beginning of the DROP participation period.

Payments will not be made until the member withdraws from service.

Voluntary Termination within the First Three Years of DROP Participation

A member who withdraws from service voluntarily within the first three years of DROP will **forfeit** the DROP contributions based on the monthly retirement allowance made to his or her account. He or she may elect to receive the following in either a lump-sum payment or make a direct rollover to a qualified plan:

1. Member contributions made to the ERS during the DROP participation period plus interest (currently four percent).
2. Interest attributable to the monthly retirement allowance contributions made to the DROP account during the DROP participation period.

The monthly retirement allowance the retiree will receive after withdrawal from service may be recalculated to include accrued sick leave. However, the number of days converted cannot exceed the number of days the participant had on the date he or she entered DROP. The member is **not** allowed to change the option for the monthly retirement allowance chosen at the beginning of the DROP participation period.

Payments will not be made until the member withdraws from service.

Death During DROP Participation

If the member dies anytime during the DROP participation period and the beneficiary is the spouse, the spouse may elect to receive the following contributions in either a lump-sum payment or make a direct rollover to a qualified plan. Non-spouse beneficiary(s) may only receive the following contributions in a lump-sum payment:

1. The monthly retirement allowance contributions plus interest (currently four percent). These contributions are based on the retirement option elected upon entering the DROP participation period.
2. Member contributions made to the ERS during the DROP participation period plus interest (currently four percent).

Any retirement benefit based on the retirement option elected by the member at the beginning of the DROP participation period will be paid to the beneficiary(s). The monthly retirement allowance may be recalculated to include accrued sick leave. However, the number of days converted cannot exceed the number of days the participant had on the date he or she entered DROP. The beneficiary is **not** allowed to change the option for the monthly retirement allowance chosen at the beginning of the DROP participation period.

No death before retirement benefit will be paid to the estate or beneficiary.

Continued Service after the DROP Participation Period

If the member does not withdraw from service after completing his or her DROP participation, the member will resume active contributing membership in the ERS for the purpose of earning creditable service. No time spent participating in DROP will be counted as creditable service. For example, if a member had 26 years of creditable service upon entering DROP and participated in DROP for five years; then worked two more years after completing his or her contractual obligation in DROP, the member would only have 28 years of total creditable service.

Upon withdrawal from service, the member may elect to receive the following contributions in either a lump-sum distribution or make direct rollover to a qualified plan:

1. The monthly retirement allowance contributions plus interest (currently four percent). These contributions are based on the retirement option elected upon entering the DROP participation period.
2. Member contributions made to the ERS during the DROP participation period plus interest (currently four percent).

The monthly retirement allowance may be recalculated to include accrued sick leave. However, the number of days converted cannot exceed the number of days the participant had on the date he or she entered DROP. The member is **not** allowed to change the option for the monthly retirement allowance chosen at the beginning of the DROP participation period.

An additional monthly retirement allowance based on his or her additional service since the end of the DROP participation period will be calculated using the retirement formula (Average Final Salary x Additional Years and Months of Service x 2.0125%*). The Average Final Salary will be calculated only on the additional service since the end of DROP participation. This additional service can in no way be combined with service prior to participation in DROP. The retirement option will be the same option used in the original retirement allowance.

If the member dies or becomes disabled during the period of additional service, he or she will be considered as having retired on the date of death or commencement of disability. No death before retirement benefits will be made.

*2.875% for a State Policeman

Distribution of DROP Account

No distributions from a member's DROP account will be made until the member terminates employment with any RSA participating agency.

DROP participants have one of two ways to distribute the funds in their DROP account:

1. Receive a lump-sum payment of the total DROP account balance less the required 20% federal income tax withholding. No portion of the distribution is subject to state of Alabama income tax.
2. Rollover the account balance to a traditional IRA, another employer retirement plan, a 403(b) Tax Sheltered Annuity, or a governmental 457(b) plan that accepts rollovers. **The RSA-1 Deferred Compensation Plan accepts rollovers from your DROP account effective January 1, 2005.**

Read the **Special Tax Notice Regarding Plan Payments** prior to making your selection.

To either receive a lump-sum payment or make a rollover of the DROP account, complete the REQUEST FOR DISTRIBUTION FOR DROP (RSA 10 D-D) form and the REQUEST FOR DROP TERMINATION (ERS 10 D-C) form and return both to the ERS.

Reemployment with the RSA after Withdrawal from Service

Any member who participated in DROP and withdrew from service may become reemployed with either the ERS or TRS. This additional service will be calculated based on information in **Continued Service After the DROP Participation Period**.

City, County, Town, Public or Quasi-Public Organization or Political Subdivision (Section 12)

The governing body of Section 12 units must elect to come under the provisions of DROP and assume any costs associated with implementation of DROP. Once the Section 12 unit exercises the option to participate in DROP, the option is irreversible. Any agency that elected to participate in the ERS on or after February 1, 2002, is required to participate under the DROP provisions.

Calculating Your DROP Benefit

The following is a step-by-step method of calculating your DROP benefit. This is only an estimate. When you are ready to make a decision about entering DROP, contact the ERS for an official estimate. The retirement benefit calculator on our Web site will also calculate the DROP benefit for eligible members.

1. Determine your monthly retirement benefit at the DROP participation date.

Average Final Salary x Years and Months of Service x .020125* ÷ 12 = Monthly Retirement Benefit

The Average Final Salary is the average of the highest three annual salaries in the member's last 10 years of creditable service for which the member made contributions.

This formula will only compute the Maximum monthly retirement benefit. For options 1, 2, or 3, use the benefit calculator on our web site to determine the monthly retirement benefit.

*.02875 for a State Policeman

2. Multiply the monthly retirement benefit times the factor associated with the number of years you elect to participate in DROP to give you the DROP contributions value including interest.

1 year - 12.24
2 years - 24.97
3 years - 38.21
4 years - 51.98
5 years - 66.30

3. Determine the value of your contributions, plus interest, made during the DROP participation period.

Multiply the average salary (estimated) during the drop participation period times the factor for the number of years you elect to participate in DROP.

1 year - .0510
2 years - .1040
3 years - .1592
4 years - .2166
5 years - .2762

4. Add the two amounts together to give you an estimated value of your DROP benefit at the end of the DROP participation period.

Example: At the DROP participation date the member had an average final salary of \$58,000; 32 years of service; and selects the maximum retirement benefit. The member elects a four-year DROP participation period and estimates that the salary for the next four years will average \$60,500.

1. Monthly retirement benefit:
$$\$58,000 \times 32 \times .020125^* \div 12 = \$3,112.67$$
2. DROP contribution value including interest:
$$\$3,112.67 \times 51.98 = \$161,796.58$$
3. Member contributions including interest:
$$\$60,500 \times .2166 = \$13,104.30$$
4. Total DROP benefit:
$$\$161,796.58 + \$13,104.30 = \$174,900.88$$

*.02875 for State Policeman

Forms and Procedures

DROP Contract and Application

When a member elects to participate in DROP, he or she must:

- Complete the DROP CONTRACT AND APPLICATION FORM
- The employer must complete the *Employer Certification* section on the form
- Form must be submitted to ERS so that it is received no more than 90 nor less than 30 days prior to the effective date of participation

Request for Early Termination of DROP

If a DROP participant wishes to terminate DROP *prior* to the completion of the 3-year minimum participation requirement, the member should submit the REQUEST FOR EARLY TERMINATION OF DROP form at least 30 days prior to termination of employment, if possible. Supporting documentation must be attached such as a:

- Copy of the termination letter if termination is involuntary
- REPORT OF DISABILITY PACKET if termination is due to disability
- Copy of the transfer letter on company letterhead if termination is due to involuntary transfer of spouse

The employer must complete the *Employer Certification* section of the form. Completion and submission of this form will terminate DROP participation and this person will then be added to the monthly retirement payroll.

Statement of Examining Physician

The STATEMENT OF EXAMINING PHYSICIAN form (also used to apply for a disability retirement) in the REPORT OF DISABILITY PACKET must be signed by the member and completed by his or her attending physician and submitted with the REQUEST FOR EARLY TERMINATION Form.

Request for DROP Termination – Participation Period Completed

The REQUEST FOR DROP TERMINATION form contains information on tax withholding and, for state employees, insurance authorization. This form along with the REQUEST FOR DISTRIBUTION – DROP form must be completed and returned to the ERS.

Request for Distribution – DROP

The REQUEST FOR DISTRIBUTION form is required to authorize distribution of the DROP account balance. The funds may be paid to the participant or transferred to an eligible tax deferred account as listed on the form. The form must be signed and notarized, but no employer certification is required.

All of the forms listed in this section are contained in the Forms section of this Manual and are available from ERS.